
SECTION I - INTRODUCTION

OVERVIEW

The past year has been one of tremendous accomplishment for the Department of the Navy. Our men and women operating in the air, on and under the sea, and on the ground are at the leading edge of the Global War on Terrorism (GWOT). Forward deployed, combat ready naval forces – sustained by naval and civilian shipmates around the world – are proving every day the unique value of sovereign, independent forces projecting power from the sea.

The Department's focus for the FY 2003 budget was to reduce operational risk with additional funding in the readiness and manpower accounts. We invested in retaining, recruiting, and training our Sailors and Marines to create an environment that offers opportunity, promotes personal and professional growth, and provides the kind of workforce needed for the 21st century Department of the Navy. Additionally, our emphasis in training, spare parts, ordnance, and fuel accounts enabled our Fleet to be ready, deploy at a higher state of readiness, and build a more responsive surge capability. These priorities were vital to sustaining the war on terrorism and assuring friends and allies with our global response. This focus enabled the Department develop a more responsive force—one that surged forward with the right people, to the right place, at the right time to fulfill our national security requirements.



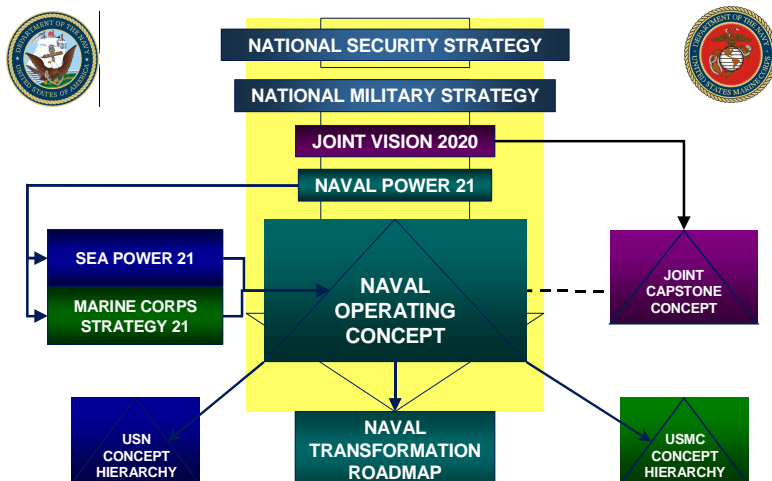
The 2001 Quadrennial Defense Review (QDR) calls on us to give “... priority to investments that improve the ability to swiftly defeat an adversary from a forward deterrence posture.” That desire is consistent with the inherent characteristics of naval forces, and that priority has been a guiding principle in the Department of the Navy program and budget for FY 2004 through FY 2009. A new document, *Naval Power 21 – A Naval Vision*, provides the conceptual framework for the maritime contribution to meeting joint capabilities. Having focused on operational risk reduction, force management, and beginning the Global War on Terrorism in the past two years, the FY 2004 President's Budget takes the first significant steps to give form to that framework, and to identify the resource planning commitments to realize them.

Winning the Global War on Terrorism is our number one priority. Our naval forces will play a leading role both in this historic struggle and in preparedness for future threats to our national security by contributing precise, persistent, and responsive striking power to the joint force, strengthening deterrence with advanced defensive technologies, and increasing operational independence through sea basing. This is the *Naval Power 21* vision.

NAVAL POWER 21

The Naval Vision

As part of a joint warfighting team, the United States Navy and Marine Corps will control the sea and project power, defense, and influence beyond the sea. Our forces will use the sovereignty of the sea and enhanced networked seabasing to operate without restriction. Our forward expeditionary nature will provide persistent warfighting capabilities and sustained American influence wherever



we may be called to deploy. We will assure our friends and allies, and together with the U.S. Air Force, U.S. Army and U.S. Coast Guard we will dissuade, deter, and defeat our nation's enemies. Our Sailors, Marines, and civilians will leverage innovative organizations, concepts, technologies, and business practices to achieve order of

magnitude increases in warfighting effectiveness. Sea-Air-Land-and-Space will be our domain.

The Navy and Marine Corps exist to control the seas, assure access, and project power beyond the sea, to influence events and advance American interests across the full spectrum of military operations. Above all, we defend our homeland, both through our actions overseas and by our efforts at home. Our vision to achieve this, is based on three fundamental pillars:

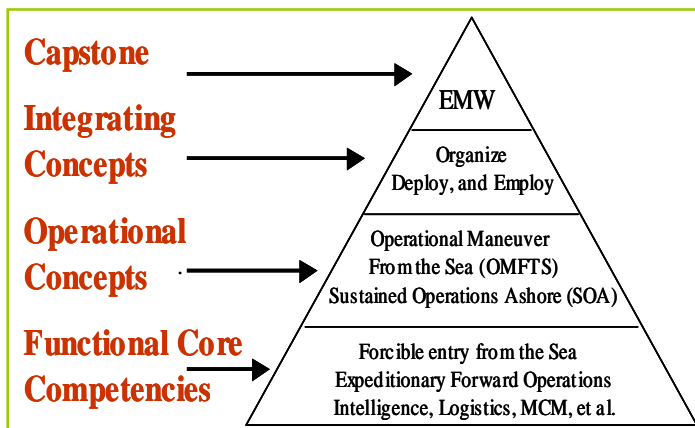
- I. *We assure access.* Assuring seabased access worldwide for military operations, diplomatic interaction, and humanitarian relief efforts. Our nation counts on us to do this.
- II. *We fight and win.* Projecting power to influence events at sea and ashore both at home and overseas. We project both offensive power and defensive capability. It defines who we are.
- III. *We are continually transforming to improve.* Transforming concepts, organizations, doctrine, technology, networks, sensors, platforms, weapon systems, training, education, and our approach to people. The ability to continuously transform is at the heart of America's competitive advantage and a *foundation* of our strength.

Refining the Way Ahead: Navy and Marine Corps Strategies

The Navy and Marine Corps have defined their respective Service strategies in *Seapower 21* and *Marine Corps Strategy 21*. These documents define their advance into the future as part of a joint force, and through their implementing capstone concepts focus efforts and resources within each Service.

MARINE CORPS STRATEGY 21

This strategy defines a Marine Corps tailored to answer the Nation's call at home or abroad. It provides the vision, goals and aims that support the development of enhanced strategic agility, operational reach, and tactical flexibility that enable joint, allied and coalition operations. These capabilities will continue to provide the regional combatant commanders with scalable, interoperable, combined arms Marine Air-Ground Task Forces that shape the international environment, respond quickly across the complex spectrum of crises and conflicts, and assure access or prosecute forcible entry where and when required. Fundamental to the Marine Corps vision is:

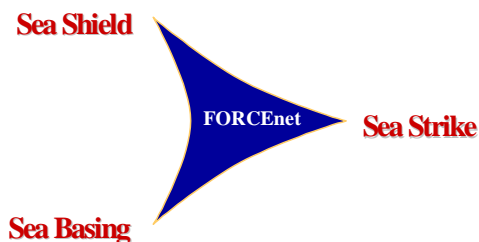


- Making Marines to win the nation's battles and create quality citizens.
- Optimizing the Corps' operating forces, support and sustainment base, and unique capabilities.
- Sustaining the enduring Navy-Marine Corps relationship.
- Reinforcing the Marine Corps' strategic partnership with the Army, Air Force, and U.S. Special Operations Command.
- Contributing to the development of joint, allied, coalition, and interagency capabilities.
- Capitalizing on innovation, experimentation, and technology.

To advance along this axis, the Marine Corps has implemented *Expeditionary Maneuver Warfare*, a capstone concept that is the union of the Marine Corps' core competencies; maneuver warfare philosophy; expeditionary heritage; sea basing; and the integrating, operational, and functional concepts by which the Marine Corps will organize, deploy and employ forces today and in the future.

SEAPOW 21

This strategy defines a Navy with three fundamental concepts: *Sea Shield*, *Sea Strike*, and *Sea Basing*, tied together and enabled by *FORCEnet*. Respectively, they enhance America's ability to project offense, project defense, and project sovereignty around the globe. This expansion of effectiveness will realize the fullest integration of the Navy-Marine Corps Team into the joint force. These enhanced naval capabilities -- as developed through the interdependent and synergistic operational concepts of Sea Strike, Sea Shield, and Sea Basing -- will produce and exploit a dispersed battlespace within which sovereign and sustainable naval, air, ground and space elements form a unified force that projects offensive power and defensive capability. These concepts will come alive in the hands of state of the art 21st century warriors enabled by *FORCEnet*, an envisioned architecture of sensors, networks, decision aids, weapons and supporting systems integrated into a single comprehensive maritime network. When combined with the capabilities of the other Services, these concepts will result in an integrated, multi-dimensional operational capability from which the joint force commander will project military power and protect joint forces.



Sea Strike

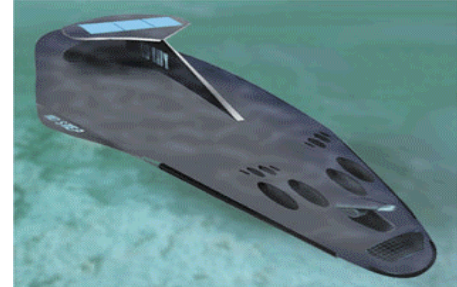
Sea Strike is a broadened naval concept for projecting dominant and decisive offensive power from the sea in support of joint objectives. Transformational capabilities within Sea Strike are being pursued in four areas: Persistent Intelligence, Surveillance, and Reconnaissance (ISR); Time Sensitive Strike; Information Operations; and Ship-to-Objective Maneuver. This improved battlespace awareness will reduce the time needed to strike critical targets by linking precision weapons with precise targeting information and provide a dramatic increase in the precision and volume of firepower available to the joint force commander.



The transformation of Ship-to-Objective Maneuver will allow future Marine Air-Ground Task Forces (MAGTFs) to greatly increase operational tempo and flexibility by developing the ability to maneuver directly against objectives deep inland, without first establishing an initial beachhead or support bases ashore. In short, the transformational capabilities being pursued through Sea Strike integrate mobile, nodal forces and decision superiority to seize the initiative, disrupt enemy timelines, decisively defeat threats, and ensure the operational success of the joint force.

Sea Shield

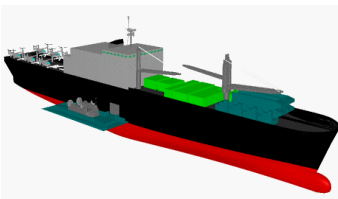
Sea Shield exploits control of the seas and forward-deployed defensive capabilities to defeat area-denial strategies, enabling joint forces to project and sustain power. The ability to extend a protective umbrella far forward will assure access, reassure allies, and protect our homeland while dissuading and deterring potential adversaries. The increasing ability of naval forces to project network centric defenses in support of the joint force generates operational freedom of action, provides full spectrum dominance, and enhances strategic stability.



Sea Shield transformational capabilities being pursued are Theater Air and Missile Defense (TAMD); Littoral Sea Control; and Homeland Defense. Over the next decade, TAMD will employ transformational technologies and concepts enabling new naval capabilities to provide networked mobile protection of joint forces, friends and allies, and critical infrastructure ashore from aircraft, cruise and ballistic missiles.

Sea Basing

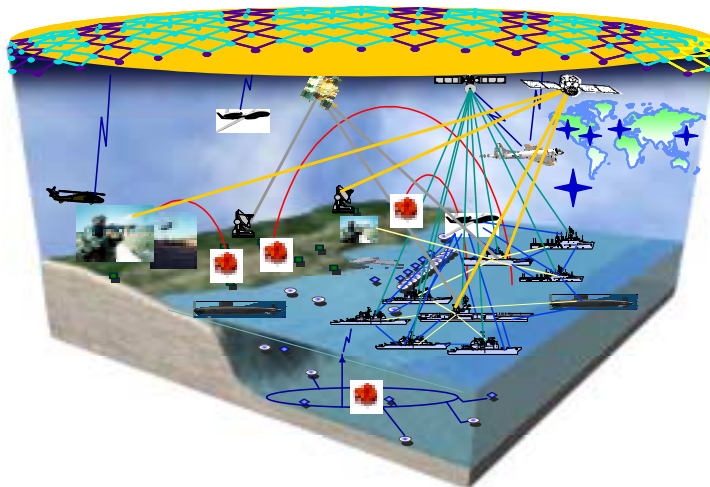
Sea Basing will provide sustainable global projection of American power from the high seas at the operational level of war. Sea Basing transformational capabilities offer the potential for secure, sovereign, and mobile assembly areas and sanctuaries for key elements of the joint force, allowing the United States and its allies to most effectively utilize the international domain of the sea as maneuver space. Sea Basing will allow positioning networked joint forces for immediate employability. It will enhance maneuver ashore by reducing the need to move in major command and control elements, heavy fire support systems, or logistical stockpiles. By locating these critical functions at sea, Sea Basing will reduce force protection requirements and demands on allied and coalition partners' infrastructure, enhance deterrence, and provide the nation with unmatched operational freedom of action.



Seapower 21 will introduce unprecedented maritime sovereign power needed by the joint forces commanders, unfettered by the politics of overflight or basing rights, borders, and boundaries.

FORCEnet

FORCEnet is the operational construct and architectural framework for naval warfare in the information age which integrates warriors, weapons, sensors, networks, command and control, and platforms into a networked, distributed combat force, scalable across the spectrum of conflict from seabed to space and sea to land. By exploiting existing and emerging technologies, FORCEnet enables dispersed, human, decision-makers to leverage military capabilities to achieve dominance across the entire mission landscape with joint, allied and coalition partners. FORCEnet is the implementation of network centric warfare in the naval services and will provide the means for an exponential increase in naval combat power. It will be built to conform to joint architectural frameworks, linking current and future sensors, command and control elements and weapons systems in a robust, secure, and scalable way. Information will be converted to knowledge and disseminated to a dispersed naval combat force, enabling the rapid concentration of the full power of the Sea Strike, Sea Shield, and Sea Basing concepts.



SUPPORTING OPERATIONAL INITIATIVES

A supporting triad of initiatives will augment those core operational concepts:

- *Sea Warrior* is the process of developing 21st century Sailors. It identifies the knowledge, skills, and abilities needed for mission accomplishment; applies a career-long training and education continuum; and employs a responsive, interactive career management system to ensure the right skills are in the right place at the right time.
- *Sea Trial* reinforces a culture of innovation and integrates emerging technologies, concepts, and spiral development techniques into an enduring process of experimentation and continual improvement.
- *Sea Enterprise* captures efficiencies by employing lessons from the business revolution to assess organizational alignment, target areas for improvement, and prioritize investments.

The naval vision and the Service strategies reflect who we are. Our enduring role as America's sea based force will permit the Navy-Marine Corps team to *assure access, fight and win, and continually transform*. We will be decisive, sustainable, responsive, and agile, with people as the absolute heart of the team. The Service strategies represented in *Seapower 21* and *Marine Corps Strategy 21* will focus our ability to transform while meeting the Nation's global security demands and forming a crucial part of our nation's joint force. We will capture business efficiencies through the Sea Enterprise initiative, and work toward an expanded naval force for the turbulent decades ahead. In a world of violent horizons, the Navy-Marine Corps team will serve America: anywhere, anytime, around the world, around the clock.

RESOURCE TRENDS

The FY 2004 budget shifts our focus to “buy down” future risk by pursuing much needed recapitalization. The budget provides resources necessary to recapitalize and invest in transformational capabilities while at the same time, maintaining readiness, and enriching the lives of our people.

Chart 1 - DoN Topline FY 2002-FY 2004

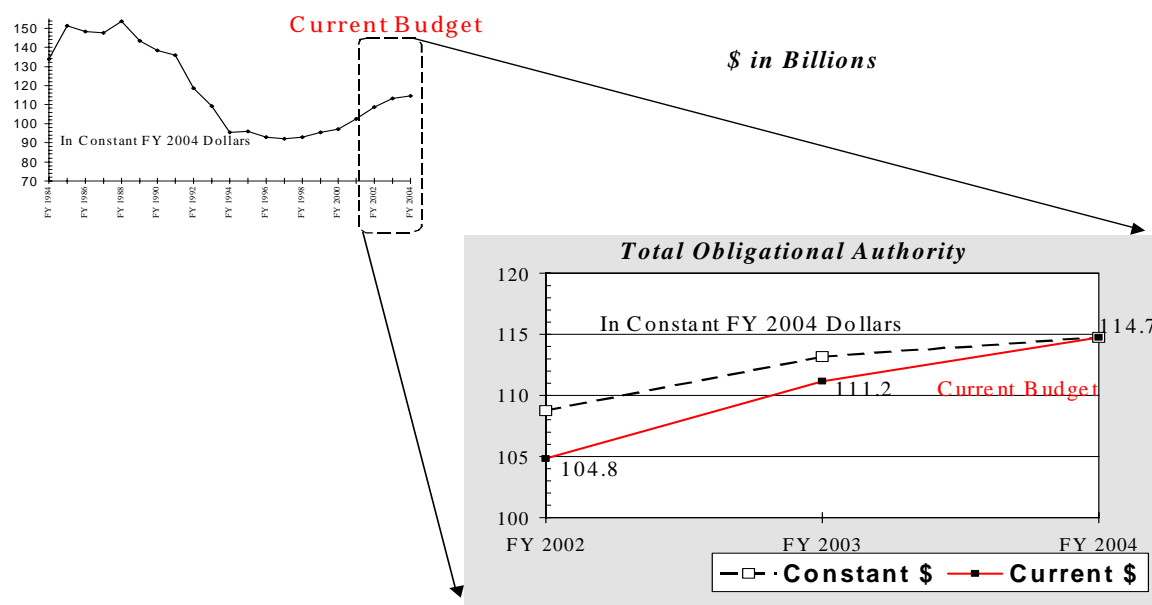


Chart 1 reflects Department of the Navy resources in both current and constant dollars from FY 2002 through FY 2004. The smaller chart provides an historical perspective in constant dollars from FY 1984 through FY 2004.

As indicated in chart 1, the budget increases by 3% in FY 2004 over FY 2003 levels. However, approximately \$2 billion of the topline increase is due to compensation in the military personnel accounts and \$1 billion is due to inflation adjustments. The remaining topline increase sustains FY 2003 growth level, but little else. The investment and development accounts for FY 2004 concentrate on minimizing future risk by devoting resources to provide new warfighting assets to the fleets.

Naval Power 21 is the vision to deliver enhanced warfighting capabilities through new concepts, technologies, organizational initiatives, and improved acquisition processes. It is dedicated to a process of continual innovation and committed to total jointness. Among the critical challenges we face is finding and allocating resources to recapitalize our Navy and Marine Corps forces. We achieved a projected cost avoidance over \$40 billion over the future years plan by improving business and infrastructure processes; divesting of legacy force structure and programs; and improving acquisition processes through the use of

multi-year procurement contracts. This will help provide for much needed recapitalization of our force structure. Indeed, the significant progress made over the past two years in Manpower and Current Readiness makes it possible to reduce future risk by placing more emphasis on Future Readiness to transform our Department for the challenges ahead.

- ✓ **Optimized, supportable future force structure**
e.g., TACAIR integration reduces E/F and JSF total buy requirements by 497 aircraft
- ✓ **Stable, healthy industrial base**
e.g., Shipbuilding MYP/EOQ procurements and Ship Swap
- ✓ **Technologically enabled, interoperable enterprise**
e.g., Navy Marine Corps Intranet operating seamlessly with joint forces within Global Information Grid
- ✓ **Optimized workforce**
e.g., Workload validation to focus best blend of military, civilian, and private-sector support on core work requirements
- ✓ **Efficient and appropriately sized infrastructure**
e.g., BRAC/EFI complemented by Regionalization

Chart 2 - Trendlines FY 2002-FY 2004

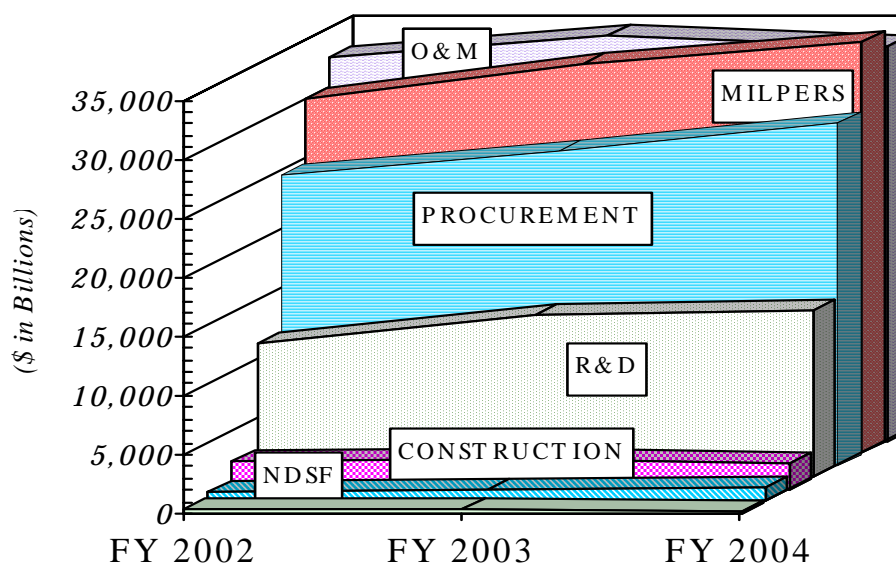


Chart 2 and Table 1 display Department of the Navy appropriations for FY 2002 through FY 2004.

As shown in Chart 2 and Table 1, the military personnel accounts have the largest increase for the FY 2004 budget largely due to pay raises, basic allowance for housing, and accruals. The increase in the investment and development accounts is the result of further improvements in recapitalization (7 ships, 100 aircraft) and transformational capabilities (i.e., CVN-21, DD(X), JSF, and Advanced Hawkeye). The Department aggressively pursued retiring aging weapon systems and accelerated force structure decommissionings to generate savings to buy down future risk. The operating account reductions are largely attributable to one-time base support Anti-terrorism Force Protection projects in FY 2003 and a working capital fund credit that offset the FY 2004 appropriation requirements.

APPROPRIATION SUMMARY FY 2002 - 2004

Table 1

Department of the Navy

Appropriation Summary FY 2002 - 2004

(In Millions of Dollars)

	FY 2002	FY 2003	FY 2004
Military Personnel, Navy	20,281	\$21,905	25,292
Military Personnel, Marine Corps	7,603	8,492	9,559
Reserve Personnel, Navy	1,661	1,907	-
Reserve Personnel, Marine Corps	467	554	-
Operation & Maintenance, Navy	28,285	29,104	28,288
Operation & Maintenance, Marine Corps	2,965	3,521	3,407
Operation & Maintenance, Navy Reserve	1,013	1,208	1,172
Operation & Maintenance, MC Reserve	140	179	174
Emergency Response Fund, Defense	3,058	-	-
Environmental Restoration, Navy	-	256	256
Kaho'olawe Island	76	75	-
Aircraft Procurement, Navy	7,993	8,648	8,788
Weapons Procurement, Navy	1,413	1,833	1,992
Shipbuilding & Conversion, Navy	9,278	9,073	11,439
Other Procurement, Navy	4,173	4,535	4,679
Procurement, Marine Corps	942	1,358	1,071
Procurement of Ammunition, Navy/MC	718	1,146	922
Research, Development, Test & Evaluation, Navy	11,379	13,631	14,107
National Defense Sealift Fund	789	928	1,063
Military Construction, Navy	1,139	1,305	1,133
Military Construction, Naval Reserve	53	75	28
Family Housing, Navy	1,165	1,141	1,039
Navy Working Capital Fund	-	40	130
Base Realignment and Closure	247	270	181
TOTAL	\$104,836	\$111,184	\$114,720

Note: Totals may not add due to rounding.

Table 2 displays a track of changes to the Department of the Navy appropriations for FY 2003, beginning with the FY 2003 President's Budget request. The largest change is the funding for extraordinary Cost of War estimates. These amounts were requested separately, but appropriated in the appropriate account for execution. Transfers reflect known reprogramming requirements, based on fact of life program changes. These include transfers to reflect changes in foreign currency exchange rates, public private venture initiatives, and other internal realignments needed to execute programs in accordance with congressional intent. Prior approval reprogramming actions, financed primarily by inflation reductions, to fund the Department's Training Resource Strategy (TRS) and to convert SSBN Trident submarines to SSGN cruise missile land attack submarines are also included.

DERIVATION OF FY 2003 ESTIMATES

Table 2

Department of the Navy

Derivation of FY 2003 Estimates

(In Millions of Dollars)

	FY 2003 President's Budget	Congressional Action		Prior Year	Proposed	FY 2003 Current Estimate
		DERF Transfers	Adjust ments	Balances	Transfers	
Military Personnel, Navy	22,094	-	-173		-16	21,905
Military Personnel, Marine Corps	8,559	1	-70		2	8,492
Reserve Personnel, Navy	1,927	-	-20		-	1,907
Reserve Personnel, Marine Corps	558	-	-4		-	554
Operation & Maintenance, Navy	29,029	627	-729	63	114	29,104
Operation & Maintenance, Marine Corps	3,358	259	-75	2	-23	3,521
Operation & Maintenance, Navy Reserve	1,166	74	-10		-22	1,208
Operation & Maintenance, MC Reserve	186	-	-		-7	179
Environmental Restoration, Navy	257	-	-1		-	256
Kaho'olawe Island	25	-	50		-	75
Aircraft Procurement, Navy	8,204	366	170		-92	8,648
Weapons Procurement, Navy	1,833	116	-95		-21	1,833
Shipbuilding & Conversion, Navy	8,191	-	775		107	9,073
Other Procurement, Navy	4,347	125	87		-24	4,535
Procurement, Marine Corps	1,288	45	42		-17	1,358
Procurement of Ammunition, Navy/MC	1,015	145	-2		-12	1,146
Research, Development, Test & Eval, Navy	12,502	165	1,113		-149	13,631
National Defense Sealift Fund	934	-	8		-14	928
Military Construction, Navy	895	221	189		-	1,305
Military Construction, Naval Reserve	52	7	16		-	75
Family Housing, Navy	1,244	-	-5		-98	1,141
Navy Working Capital Fund	424	-	-384		-	40
Base Realignment and Closure	261	-	9		-	270
TOTAL	\$108,349	2,151	891	65	-272	\$111,184

Note: Totals may not add due to rounding.

PERFORMANCE MEASUREMENT

The Department of the Navy, one of the largest employers in our nation, is also one of the most visible to the public. With employees in multiple countries, at sea and ashore, in every time zone and in every climactic region, the spotlight never leaves our emblem. With our charter to defend our nation and its interests at home and abroad, it becomes essential that every employee take an active role in using his/her resources wisely, and ensuring success in each endeavor.

The President has stated that this Administration is “dedicated to ensuring that the resources entrusted to the federal government are well managed and wisely used.” To achieve this, the strategy proposed in the President’s Management Agenda focuses on five basic tenets: (1) Budget and Performance Integration, (2) Strategic Management of Human Capital, (3) Competitive Sourcing, (4) Financial Management Improvement, and (5) Expanding E-Government. Improving programs by focusing on results is an integral component of the Department’s budget and performance integration initiative. The most recent Executive Scorecard grades the Department of Defense as “red” on current status for budget and performance integration and “yellow” for progress. The FY 2004 Budget for the DoN associates performance metrics for twenty percent of requested resources. In an effort to incorporate performance metrics into the budget process, the Office of Management and Budget (OMB) has instituted Program Performance Assessment which identify programs that will be measured in “getting to green” and providing a rating system that is consistent, objective, credible, and transparent. The initial Department of the Navy programs reviewed in FY 2004 are outlined in Chart 3. Programs were assessed and evaluated across a wide range of issues related to performance, and overall Department of the Navy program areas reviewed scored an average of 72 percent. Amplifying metric information related to these programs can be found in detailed justification materials supporting the FY 2004 budget submission.

Chart 3 - Performance Scorecard

1. Budget and Performance Integration										
	Program Purpose & Design	Strategic Planning	Program Mgmt	Program Results	Weighted Score	Overall Rating	DoN Funding			
							FY02	FY03	FY04	Programs Included
Air Combat	100%	100%	72%	67%	88%	Moderately Effective	4,045	5,307	5,538	F/A-18 E/F, JSF
Shipbuilding	80%	90%	73%	47%	64%	Adequate	9,798	9,457	12,161	New construction
Basic Research	100%	89%	84%	80%	86%	Effective	395	412	457	6.1
Housing	100%	100%	71%	67%	78%	Moderately Effective	4,669	4,740	5,150	FH, BAH
Communications Infrastructure	80%	78%	40%	44%	54%	Results Not Demonstrated	438	939	1,261	NMCI, Base level comm
Recruiting	80%	100%	71%	75%	78%	Moderately Effective	860	853	869	O&M, MilPers
Facilities SRM/Demolition	80%	100%	14%	60%	59%	Adequate	1,813	2,378	2,031	O&M
DoN Average Scores/Total Funding	89%	94%	61%	63%	72%		22,018	24,086	27,467	

2. Strategic Management of Human Capital

- Sea Warrior

3. Competitive Sourcing

- 44,176 A-76 Study Positions (-3,932)
- 76,987 FA/BPR Study Positions (+9,678)
- 121,163 total positions reviewed (+5,746)

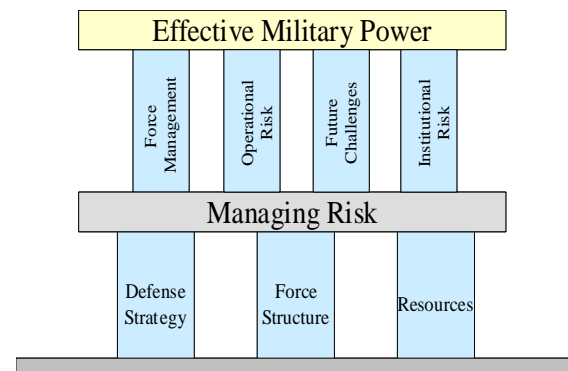
4. Financial Management Improvement

- FM Modernization Program (DOD-wide)
- Enterprise Resource Planning

5. Expanding Electronic Government

- Dedicated eBusiness Ops Office
- Mandated reverse auctions

The September 2001 Quadrennial Defense Review (QDR) established a risk framework that will ensure the nation's military is properly prepared to carry out the strategy. Within the framework there are four tenets of risk management: force management, operational risk, future challenges, and institutional risk. Measuring this risk in terms of meaningful metrics and then managing risk is the stated challenge. The Government Performance and Results Act (GPRA) (P.L. 103-62) of 1993 requires federal agencies to submit a comprehensive plan that identifies major goals and objectives. The assessment tools within GPRA will be one of the prime enablers for risk management associated with the tradeoffs in balancing defense strategy, force structure, and resources. Once these risk tenets have been fully



assessed, taking action to mitigate potential vulnerabilities will further shape the application of our resources to force structure ensuring that our strategy is viable.

We are in a crucial time of transition for this Department, with a strategy that will embrace America's freedoms through our safety at home and abroad. As we tackle the challenge of the war abroad, we must embrace the transformation of our national defense. Transformation is not a goal for the future; rather, a commitment here and now. The performance measures represent the strategic direction of the Department, and were designed to ensure that we are sized, shaped, postured, committed, and managed to achieve key goals. These goals include maintaining a ready and sustained force to meet today's challenge, investing in tomorrow's capabilities, and establishing processes and organizations that make effective and efficient use of our scarce resources. Detailed metrics and goals are included throughout this publication and a summary by each of the four QDR goals is included in Section IV.